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UBS Bank (Canada)
Basel Pillar III Disclosures
December 31, 2023

CCID Corporate Identifier: 89266472

Overview

UBS Bank (Canada) [the "Bank"] is a wholly owned subsidiary of UBS AG [the "Parent bank"] and is incorporated and licensed to operate as a bank in Canada with full banking powers under the Bank Act (Canada) as a foreign bank subsidiary. Its registered office is located at 154 University Avenue – Suite 800, Toronto, Ontario, Canada, M5H 3Z4.

Basis of preparation

The Office of the Superintendent of Financial Institutions ('OSFI') Pillar 3 Disclosure Guideline for Small and Medium Sized Deposit Taking Institutions (SMSBs) sets out the disclosure requirements for SMSBs operating under the Basel framework. The Pillar 3 disclosures are designed to complement the minimum capital requirements in Pillar 1 and the supervisory review process in Pillar 2. The aim of Pillar 3 is to promote market discipline by allowing market participants to access information on risk exposures and risk management policies and processes adopted by UBS Bank (Canada) ('the Bank').

This document represents the Basel III Pillar 3 disclosure requirements for Small and Medium-Sized Banks ("SMSBs") classified as a Category 2 SMSBs. The SMSB's reporting less than $10 billion in total assets are in Category 2 if they meet any of the following criteria:

1. report greater than $100 million in total loans
2. enter into interest rate or foreign exchange derivatives with a combined notional amount greater than 100% of total capital
3. have any other types of derivative exposure
4. have exposure to other off-balance sheet items greater than 100% of total capital

Based on the above criteria, the Bank has been placed in the segmentation Category 2 and the following disclosures are applicable. All quantitative disclosures are made in $ '000 CAD, unless otherwise indicated.

Disclosures

The Pillar 3 disclosure guideline for Category 2 SMSBs prescribes as follows:

(i) Quarterly disclosures:

Key Metrics (KM1); Composition of regulatory capital for SMSB (Modified CC1), and Leverage Ratio common disclosure template (LR2).

(ii) Annual disclosures:

Disclosures related to general information regarding credit risk (CRA), Liquidity Risk and general qualitative information on Bank's operational risk framework (ORA).

Additional information is available here:

OSFI's financial Data website: https://www.osfi-bsif.gc.ca/en/data-forms/financial-data/financial-data-banks

I. Quarterly Disclosures:

Table KM1: Key Metrics

	Available capital (amounts)	**Q4/2023**
1	Common Equity Tier 1 (CET1)	125,481
2	Tier 1	125,481
3	Total capital	125,486
	Risk-weighted assets (amounts)	
4	Total risk-weighted assets (RWA)	317,965
4a	Total risk-weighted assets (pre-floor)	317,965
	Risk-based capital ratios as a percentage of RWA	
5	CET1 ratio (%)	39.46
5a	CET1 ratio (%) (pre-floor ratio)	39.46
6	Tier 1 ratio (%)	39.46
6a	Tier 1 ratio (%) (pre-floor ratio)	39.46
7	Total capital ratio (%)	39.47
7a	Total capital ratio (%) (pre-floor ratio)	39.47
	Additional CET1 buffer requirements as a percentage of RWA	
8	Capital conservation buffer requirement (2.5% from 2019) (%)	N/A
9	Countercyclical buffer requirement (%)	N/A
10	Bank G-SIB and/or D-SIB additional requirements (%) **[Not applicable for SMSBs]**	
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	N/A
12	CET1 available after meeting the bank's minimum capital requirements (%)	N/A
	Basel III Leverage ratio	
13	Total Basel III leverage ratio exposure measure	1,123,969
14	Basel III leverage ratio (row 2 / row 13)	11.16

Table Modified CC1. Composition of Regulatory Capital for SMSB

		Q4/2023
		Amounts
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	196,737
2	Retained earnings	-71,839
3	Accumulated other comprehensive income (and other reserves)	583
4	*Directly issued capital subject to phase out from CET1 (only applicable to Federal Credit Unions)*	N/A
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	N/A
6	**Common Equity Tier 1 capital before regulatory adjustments**	125,481
	Common Equity Tier 1 capital: regulatory adjustments	
28	**Total regulatory adjustments to Common Equity Tier 1**	125,481
29	**Common Equity Tier 1 capital (CET1)**	125,481
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	N/A
31	of which: classified as equity under applicable accounting standards	N/A
32	of which: classified as liabilities under applicable accounting standards	N/A
33	*Directly issued capital instruments subject to phase out from Additional Tier 1 (applicable only to Federal Credit Unions)*	N/A
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	N/A
35	*of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)*	N/A
36	**Additional Tier 1 capital before regulatory adjustments**	N/A
	Additional Tier 1 capital: regulatory adjustments	
43	**Total regulatory adjustments to additional Tier 1 capital**	N/A
44	**Additional Tier 1 capital (AT1)**	N/A
45	**Tier 1 capital (T1 = CET1 + AT1)**	125,481
	Tier 2 capital: instruments and provisions	

46	Directly issued qualifying Tier 2 instruments plus related stock surplus	N/A
47	*Directly issued capital instruments subject to phase out from Tier 2 (applicable only to Federal Credit Unions)*	N/A
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	N/A
49	*of which: instruments issued by subsidiaries subject to phase out (applicable only to Federal Credit Unions)*	N/A
50	Collective allowances	5
51	**Tier 2 capital before regulatory adjustments**	
	Tier 2 capital: regulatory adjustments	
57	**Total regulatory adjustments to Tier 2 capital**	5
58	**Tier 2 capital (T2)**	5
59	**Total capital (TC = T1 + T2)**	125,486
60	**Total risk-weighted assets**	317,965
	Capital ratios	
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	39.46
62	Tier 1 (as a percentage of risk-weighted assets)	39.46
63	Total capital (as a percentage of risk-weighted assets)	39.47
	OSFI target	
69	Common Equity Tier 1 target ratio	7.0
70	Tier 1 capital target ratio	8.5
71	Total capital target ratio	10.5
	Capital instruments subject to phase-out arrangements (For Federal Credit Unions only)	
80	Current cap on CET1 instruments subject to phase-out arrangements	N/A
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	N/A
82	Current cap on AT1 instruments subject to phase-out arrangements	N/A
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	N/A
84	Current cap on Tier 2 instruments subject to phase-out arrangements	N/A
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	N/A

Table LR2: Leverage Ratio common disclosure template

		Q4/2023
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	1,014,972
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework (IFRS)	8,684
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	N/A
4	(Asset amounts deducted in determining Tier 1 capital)	N/A
5	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)**	1,006,288
	Derivative exposures	
6	Replacement cost associated with all derivative transactions	8,683
7	Add-on amounts for potential future exposure associated with all derivative transactions	23,849
8	(Exempted central counterparty-leg of client cleared trade exposures)	N/A
9	Adjusted effective notional amount of written credit derivatives	N/A
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	N/A
11	**Total derivative exposures (sum of lines 6 to 10) multiplied by 140%**	45,545
	Securities financing transaction exposures	
12	Gross SFT assets recognised for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	N/A
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	*N/A*
14	Counterparty credit risk (CCR) exposure for SFTs	*N/A*
15	Agent transaction exposures	N/A
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	N/A
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	72,136
18	(Adjustments for conversion to credit equivalent amounts)	N/A
19	**Off-balance sheet items (sum of lines 17 and 18)**	72,136
	Capital and total exposures	
20	**Tier 1 capital**	125,481
21	**Total Exposures (sum of lines 5, 11, 16 and 19)**	1,123,969
	Leverage ratio	
22	**Basel III leverage ratio**	11.16

II. Annual Disclosures:

The following control framework generally applies to all risk, including credit risk, operational risk and liquidity risk.

A. Risk Control Overview

Principles

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring subject to the risk appetite of the Bank. Risk appetite is defined as the amount of risk that the Bank is willing to take in pursuit of its strategic objectives. Five key principles underpin the Bank's risk management and control framework. These principles are intended to allow the Bank to achieve an appropriate balance between risk and return. The five key principles are:

- **Business management accountable for risk:** Business management throughout the firm is accountable for all the risks assumed or incurred by its business operations. This means that the business is responsible for the continuous and active management of its risk exposures, as well as for ensuring an appropriate balance between risk and return.
- **Independent control of risk:** A control process independent of the businesses is an integral part of the Bank's risk management and control framework. Independent risk control aims to provide an objective assessment of risk-taking activities, helping senior management align the interests of all stakeholders, including the shareholder, clients and employees.
- **Disclosure of risk:** Comprehensive, transparent and objective risk disclosure is an essential component of the risk control process. This includes disclosure and periodic reporting to senior management, the Board of Directors, the shareholder, regulators and other stakeholders.
- **Earnings protection:** The Bank aims to protect its earnings by limiting the scope for losses and exposure to stress events.
- **Reputation protection:** Protection of the Bank's reputation depends, among other things, on the effective management and control of the risks incurred in the normal course of its business. All employees should make the protection of the Bank's reputation an overriding concern.

Responsibilities

Key roles and responsibilities related to risk management and control are outlined below:

- **Board of Directors ["BoD"]:** The BoD has a strategic and supervisory function and is responsible for determining the Bank's fundamental approach to risk. The Bank's risk principles, risk appetite and risk capacity are also determined by the BoD.
- **Operating and Risk Committee:** The Operating and Risk Committee oversees the Bank's risk profile and the implementation of risk management and control principles. It is responsible for reviewing the Bank's operating environment and the completeness and effectiveness of front-to-back controls.

- **Executive Committee:** The mandate of the Executive Committee is to develop and oversee the strategy of the Bank's growth and expansion.
- **Chief Executive Officer ["CEO"]:** The CEO of the Bank is accountable for the results and risks of the Bank as well as maintaining an appropriate risk management structure.
- **Chief Financial Officer ["CFO"]:** The CFO is responsible for ensuring that the Bank discloses the financial performance in a clear and transparent way, and that this reporting and disclosure meets all regulatory requirements and corporate governance standards. The CFO is also responsible for the implementation of the Bank's risk management and control frameworks in the areas of capital management, liquidity, funding and tax.
- **Chief Risk Officer ["CRO"]:** The CRO of the Bank is responsible for the independent control of risk
- **Asset and Liability Committee ["ALCO"]:** The Bank has an established ALCO comprising the CFO, CRO, Treasury, Operations, Compliance, and Credit Risk Control to ensure that the capital and liquidity position is reviewed regularly and that the Bank is operating within its external and internal interest rate and foreign exchange and Bank concentration risk limits.
- **Head of Legal:** The Head of Legal is responsible for the Bank's oversight of all legal matters.

Framework

Based on these principles, the Bank has established a risk appetite framework that provides a structured approach to defining the amount and type of risk that the Bank is willing to accept in the pursuit of its strategic objectives.

The risk appetite framework includes:

- Identification of regulatory constraints that restrict the Bank's ability to accept risk and help it to define its risk capacity, which represents the maximum amount and type of risk the Bank can accept (e.g., leverage ratio and its impact on the size of the consolidated balance sheet);
- Establishment and regular confirmation of self-imposed and Parent bank-imposed constraints and key risk policies where the Bank has chosen to limit the amount of risk it can undertake through risk limits and/or specific policies (e.g, anti-money laundering, personal account dealing, etc.);
- Translation of risk appetite into risk limits and tolerances that guide the Bank's businesses in its risk taking activity; and
- Ongoing measurement and monitoring of the Bank's risk profile against risk limits and tolerances.

B. CRA – General information about credit risk

a) How the business model translates into the components of the SMSB’s credit risk profile

The focus of UBS Bank (Canada) is the wealth management (“WM”) business. Credit is an integral part of the Bank's basket of services offered to wealth management clients.
The Bank offers securities based lending facilities, Over the Counter (“OTC”) derivatives and exchange traded derivatives (“ETDs”). The credit exposure is mostly secured by well

diversified portfolios comprised of cash, equities, mutual funds, fixed income and structured products.

Credit risk is the potential risk of loss resulting from client or counterparty default and arises on credit exposure in all forms, including settlement risk.
The Bank extends uncommitted and secured loan limits, foreign exchange and precious metal forward limits and equity put trading limits mainly to high-net-worth individuals and their investment companies. The Bank is also exposed to the credit risk of its related borrowers.

b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits

Credit management policy is reviewed by group function and approved by the Board of Directors ("BoD") on an annual basis.

In general, the Bank adopts the global credit policies of its Parent bank as its guidance and the credit exposure is monitored on a daily basis through an independent credit risk control function. Borrowers are required to maintain sufficient lending value to cover the exposure and are subject to margin calls from the Bank. The lending value of the eligible collateral and the haircuts applied thereon are determined at the sole discretion of the Bank.
The credit quality of other financial assets is managed by the Bank by either investing in securities issued or guaranteed by the Government of Canada and other sovereigns rated AA- or better and/or by investing in financial institutions rated A+ or higher. For determining the credit rating, Standard & Poor's rating scale is used. For 2023, there has been no material change in lending policies or practices from the previous periods.

c) Structure and organisation of the credit risk management and control function

Credit Officer reports to Team Lead of GWM CRO Americas Flow in the United States, and works closely with the Bank's Chief Risk Officer in risk management and control function.

d) Relationships between the credit risk management, risk control, compliance and internal audit functions

Credit Risk Control ("CRC") is the second line of defense ("2LoD") responsible for independent oversight and control of the credit risk in WM's risk-taking activities.

e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors

Credit Risk Control provides credit risk summary report to the Chief Risk Officer ("CRO"), Operating Risk Committee ("ORC"), and Global Wealth Management ("GWM") governance team covering the portfolio overview, loans with equity concentration, margin call and limit excess statistics.

Credit Risk Control provide credit risk summary report to the Board of Directors ("BoD") covering portfolio summary, trend analysis, large exposures and what-if analysis.

C. ORA – General qualitative information on operational risk framework

(a) The policies, frameworks and guidelines for the management of operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people, systems, or from external events. Categories of operational risk that are applicable to the Bank include Internal and External Fraud, Transaction Processing &Execution, Cyber and Information Security, Technology Production Stability, Business Continuity Management and Third Party Risk Management. The Bank has Non-Financial Risk Framework and related policies for the management of operational risks.

(b) The structure and organisation of their operational risk management and control function

The minimum governance standards for Non-Financial Risk (NFR) Management include the definition, taxonomy, risk appetite, and roles and responsibilities along the 3 lines of defense.

• First line of defense -The Bank's business and central functions are responsible for the effectiveness of operational risk management and the front-to-back control environment and manage risk on a day-to-day basis in adherence to UBS risk appetite and policies.
• Second line of defense - The second line of defense provides independent oversight, challenge and control over operational risks arising from UBS's business activities.
• Third line of defense - GIA independently, objectively, and systematically assesses the effectiveness of and adherence to Non-Financial Risk Framework, processes, the effectiveness and sustainability of risk management, remediation activities and internal controls, and the soundness of the risk culture.

Operating and Risk Committee: The Operating and Risk Committee oversees the Bank's risk profile and the implementation of risk management and control principles.

Board of Directors ("BoD"): The BoD oversees UBS's risk management culture and approves the overall risk appetite of the Bank.

c) The operational risk measurement system (eg the systems and data used to measure operational risk in order to estimate the operational risk capital charge)

For capital underpinning, the Bank uses the simplified standardized approach for Operational Risk, as the Bank is classified as a Category II SMSB. Under this approach, a percentage of the previous three years' Adjusted Gross Income is used to calculate the capital charge.

Adjusted Gross Income is defined as the sum of the following:

a. The lesser of (i) the absolute value of net interest income, and (ii) 2.25% of interest earning assets;
b. Dividend income;
c. The absolute value of fee and commission income;
d. The absolute value of other income;
e. The absolute value of net profit/loss (trading book); and,
f. The absolute value of net profit/loss (banking book).

The calculation is based on the average of the last three years' adjusted gross income of the Bank multiplied by 15%:

The December 31, 2023 operational risk capital requirement was:
$5,869 (December 31, 2022: $5,255)

d) The scope and main context of the reporting framework on operational risk to executive management and to the board of directors.

The BoD oversees UBS's risk management and culture and approves the overall risk appetite of the Bank. The Bank's risk profile is measured against the Board-approved risk appetite and reported to the Operating &Risk Committee and Board at least quarterly. Board approved policies are reviewed and updated regularly.

(e) The risk mitigation and risk transfer used in the management of operational risk. This includes mitigation by policy (such as the policies on risk culture, risk appetite, and outsourcing), by divesting from high-risk businesses, and by the establishment of controls. The remaining exposure can then be absorbed by the bank or transferred. For instance, the impact of operational losses can be mitigated with insurance.

The Bank has a defined risk appetite, covering all financial and non-financial risk types, via a complementary set of qualitative and quantitative risk appetite statements and reflects the types of risk that we are willing to accept or wish to avoid. This is reviewed and recalibrated annually and presented to the BoD for approval.

Controls are designed to prevent risks from materializing, ensure UBS is operating within risk appetite and are regularly assessed for design and operating effectiveness. If the bank operates beyond risk appetite or the risk materializes, the bank has to return within appetite. This can include remediating missing/deficient controls, adjusting risk tolerance, adjusting the firm's risk profile or risk acceptance. Independent assurance is aimed at timely capturing heightened risks.

D. Disclosures related to Liquidity Risk

Liquidity risk

Prudent asset/liability management requires the Bank to monitor cash flow and manage risk. Funding and liquidity risk is the probability that the Bank will be unable to pay liabilities when meeting lines of credit or commitments already approved or due, to honour customer requests for deposit withdrawal and to repay maturing deposits.

Funding and liquidity management is the process by which the Bank's treasury function allocates its assets and structures its liabilities to meet its needs and those of its creditors. The Bank's funding and liquidity is managed in accordance with the Funding and Liquidity Risk Policy prescribed by the Parent bank, and in compliance with OSFI Guideline B-6.

Key elements of Liquidity Management Policy

The Bank's policy is to maintain sufficient (in terms of quantity and composition) liquidity to meet all regulatory and shareholder requirements, and to provide a satisfactory cushion in the case of business or market disruption. A liquidity risk management framework is in effect that ensures sufficient liquidity is maintained, including a cushion of unencumbered high quality liquid assets to withstand a range of stress events, reviewed by the Board of Directors quarterly and approved annually. The Bank manages its liquidity risk by:

- Having all transactions booked the same day as the trade takes place to ensure up-to-date liquidity positions are available, at the same time ensuring sufficient liquid assets are on hand in relation to the Bank's daily cash flows;

- Striving to maintain a liquidity ratio [liquid assets as defined below to total balance sheet] of not less than 20%, which is monitored daily by Finance and reported to local management ;

- Having liquid assets consist of short-term money market paper, Government of Canada and provincial securities and securities issued by other sovereigns rated AA- or better. Assets can only be placed with a bank rated A+ or better; ;

- Having liquid assets that must meet the Bank's stringent quality criteria, and, therefore, must have approved limits available on the Risk Portal;

- Maintaining a diversified funding portfolio, without any imprudent concentration of liquidity being provided by any single source (client or product). The main instrument of funding is customer deposits. An additional source of liquidity may be funds provided by the Bank's Parent bank. If the funding profile was to change from one of a cash surplus, the Bank would look to introduce more tightly defined funding concentration limits;

- Having client deposits in foreign currencies to be placed with third parties in deposits of respective currencies for general liquidity management purposes;

- Conducting stress testing on a quarterly basis for a variety of short-term and protracted institution-specific and market-wide stress scenarios (individually and in combination) to identify sources of potential liquidity strain and to ensure that current exposures remain in accordance with the Bank's established liquidity risk tolerance;

- Calculation of the Liquidity Coverage Ratio [“LCR”] on a monthly basis as prescribed by OSFI to ensure that High Quality Liquid Assets divided by total net cash outflows over the next 30 days is not less than 110% [OSFI's prescribed minimum is 100%] (please refer to Table A below);

- Calculation of the Net Cumulative Cash Flow ["NCCF"] stress measure on a monthly basis as prescribed by OSFI. The NCCF is a survival horizon metric that quantifies the length of time before the Bank's cumulative net cash flow turns negative;

- Calculation of the Liquidity Activity Monitor [“LAM”] return twice a week as prescribed by OSFI. The LAM return monitors changes in the Bank’s liquidity position (please refer to Table A below); and

- Maintaining a contingency funding plan to address liquidity shortfalls in emergency situations. The Bank can borrow funds internally from a related party, issue subordinated debt to the Parent bank, and receive a capital injection from Group Treasury.

Table Key Liquidity Metrics

	LCR	Liquidity Ratio
2023 Year End	278.4%	54.8%
Q4/23	278.4%	54.8%